

Product Based Budgeting

13th Financial Management Conference

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Outline

- **Naval Air Systems Command**
- **Introduction**
- **Background**
- **Approach**
- **Results**
- **Summary**
- **What's Next**
- **Acknowledgements**

Naval Air Systems Command (NAVAIR)

OUR ROLE

- THE NAVY MUST HAVE A CAPABILITY TO **CONTROL THE DECISIONS** GOVERNING THE LIFE CYCLE MANAGEMENT OF ITS NAVAL AVIATION SYSTEMS
 - ... WE USE OUR KNOWLEDGE TO:
 - **SHAPE INVESTMENT DECISIONS**
 - **ENSURE SAFE AND ECONOMIC OPERATIONS**

ONLY WE CAN . . .

1. SUSTAIN PUBLIC TRUST IN USE OF PUBLIC FUNDS

- FAIR VALUE FOR TAXPAYER DOLLARS
- EQUITABLE TREATMENT OF PRIVATE SECTOR

2. PROVIDE ECONOMIES / UNIQUE CAPABILITIES

3. SUPPORT READINESS & RESPOND TO EMERGENCIES

OUR PRODUCTS . . .

**. . . MORE THAN AIRCRAFT AND WEAPONS,
TOTAL SYSTEM CAPABILITY AND SUSTAINMENT**

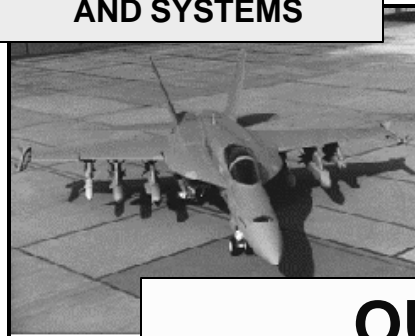
ANTI-SUBMARINE WARFARE



AIRCREW / MAINTENANCE TRAINING SYSTEMS



SEA BASED AIRCRAFT AND SYSTEMS



MARITIME WEAPONS



MARINE EXPEDITIONARY AVIATION SYSTEMS



OUR CORE PROCESSES . . .

. . . WE EXECUTE (ON BEHALF OF THE USER)

ACQUISITION MANAGEMENT

PERFORM ACQUISITION MANAGEMENT FOR THE DEVELOPMENT, PRODUCTION, AND IN-SERVICE SUPPORT OF AIRCRAFT AND WEAPONS SYSTEMS

TEST AND EVALUATION

TEST AND EVALUATE AIRCRAFT, WEAPONS AND INTEGRATED SYSTEMS

REPAIR / MODIFICATION

PROVIDE FOR THE REPAIR AND / OR MODIFICATION OF AIRCRAFT, ENGINES, SYSTEMS AND COMPONENTS

IN-SERVICE ENGR & LOGISTICS SUPPORT

PROVIDE FOR IN-SERVICE ENGINEERING AND LOGISTICS SUPPORT

TECHNOLOGY, R&D, HW / SW PRODUCTS

CONDUCT EFFORTS FOCUSED ON THE ADVANCEMENT OF TECHNOLOGY, RESEARCH AND DEVELOPMENT AND DELIVERY OF SOFTWARE / HARDWARE PRODUCTS

MAJOR NAVAIR SITES



WEAPONS DIVISION, CHINA LAKE & PT MUGU, CA

Provides our forces with effective and affordable integrated warfare systems and life cycle support to ensure battlespace dominance.

<http://www.nawcwps.navy.mil>



NAVAIR DEPOT, NORTH ISLAND, CA

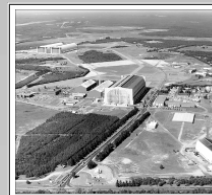
Provides comprehensive quality aviation support to the nation's warfighters.

Aircraft: F/A-18 Hornet; E-2C Hawkeye; C-2 Greyhound; S-3 Viking; H-60 Seahawk
<http://www.nadepni.navy.mil>



TRAINING SYSTEMS DIVISION, ORLANDO, FL

Center for research, development, test and evaluation, acquisition and product support of training systems for the world.
<http://www.ntsc.navy.mil>



AIRCRAFT DIVISION, LAKEHURST, NJ

Provides aircraft launch and recovery expertise to the fleet.
<http://www.lakehurst.navy.mil>



AIRCRAFT DIVISION, PATUXENT RIVER, MD

Provides acquisition management, research and development capabilities, air and ground test and evaluation, aircraft logistics and maintenance management for Naval aviation.
<http://www.nawcad.navy.mil>



NAVAIR DEPOT, CHERRY POINT, NC

Delivers on time quality products and services for Naval aviation as service to the Fleet.

Aircraft: AV-8B, Harrier; H-53, Sea Stallion; C-130, Hercules; H-46, Sea Knight; V-22, Osprey; VH-3, Presidential Helicopter
<http://www.nadepcp.navy.mil>



NAVAIR DEPOT, JACKSONVILLE, FL

Delivers high quality maintenance, engineering, logistics and support services to the Fleet.

Aircraft: P-3 Orion; EA-6B Prowler, F-14 Tomcat, F/A-18 Hornet; S-3 Viking; SH-60 Seahawk
<http://www.nadjax.navy.mil>

NAVAIR WEB SITE: <http://www.navair.navy.mil/>

Introduction

Need to Revolutionize Government Management

Dr. Jacques Gansler,

Former Under Secretary of Defense for Acquisition and Technology

- “DoD Must Engage in a Revolution in Business Affairs to Pay for the Revolution in Military Affairs.”
- Adoption of Commercial Practices Must Change the Way the Organization Is Managed to Deliver Products and Services for an Evolving Military Force

Ms. Angela Styles

Administrator for Federal Procurement Policy for Office of Management & Budget

- “The Government Is Not a Private Entity, Does Not Report to Shareholders, & Does Not Have a Profit Incentive”
- Need Cost Based Budgeting

Government is Not a Company

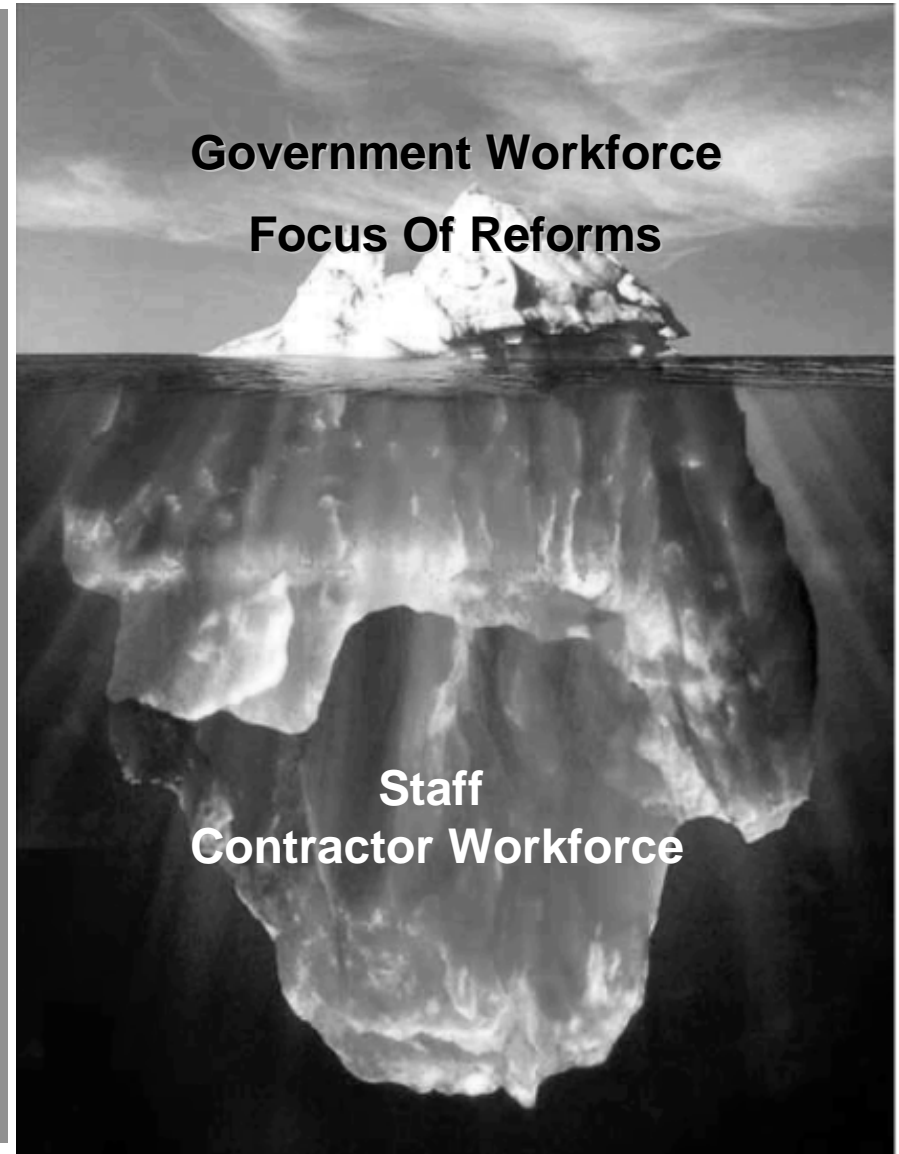
Need to Revolutionize Government Management

Most Government Organizations Don't Act As Corporations

- Focus on Value Of Appropriations
 - No Alignment Of Costs to Products
- Unclear Value to Customers

Government Reforms

- Most Concentrate on Acquisition
- Many Reduced Civilian & Military Workforces
 - Requirements To Provide Products & Services Still Exist
- Need to Focus on Total Organizational Cost



**Government Workforce
Focus Of Reforms**

**Staff
Contractor Workforce**

Background

Past NAVAIR Reforms

Adopting Commercial Practices

- Base Re-Alignment and Closure (BRAC)
- Activity Based Cost (ABC) Baseline
- Business Process Reengineering
- A-76 Competition Of Commercially Available Functions
- Enterprise Resource Planning (ERP)

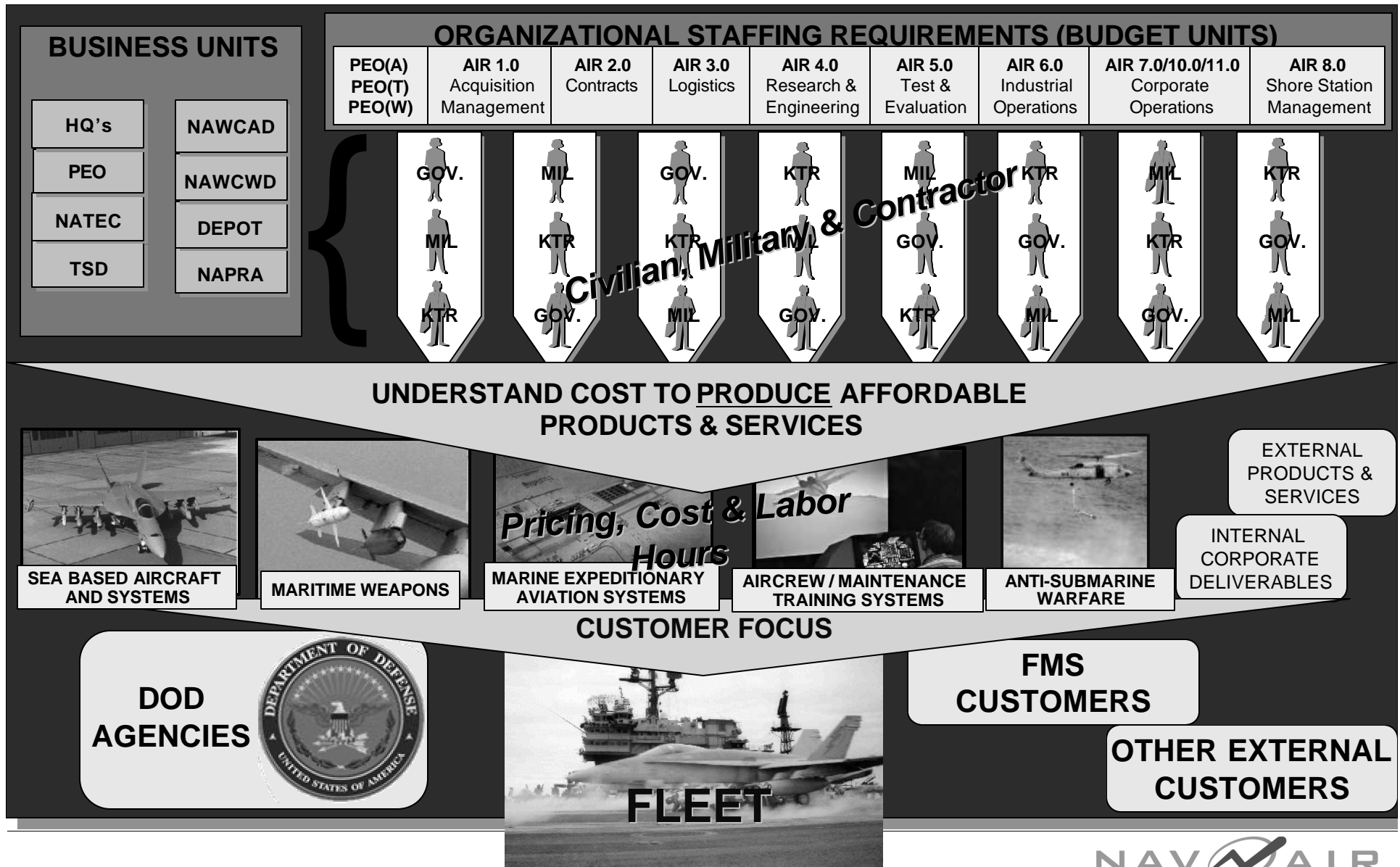
Reforms Do Not Change How Organizations Budget

- Budgets are Managed Through Multiple Appropriations
- Budgets do Not Allow Identification of Product Costs

Cost Based Budgeting Provides Better Methods for:

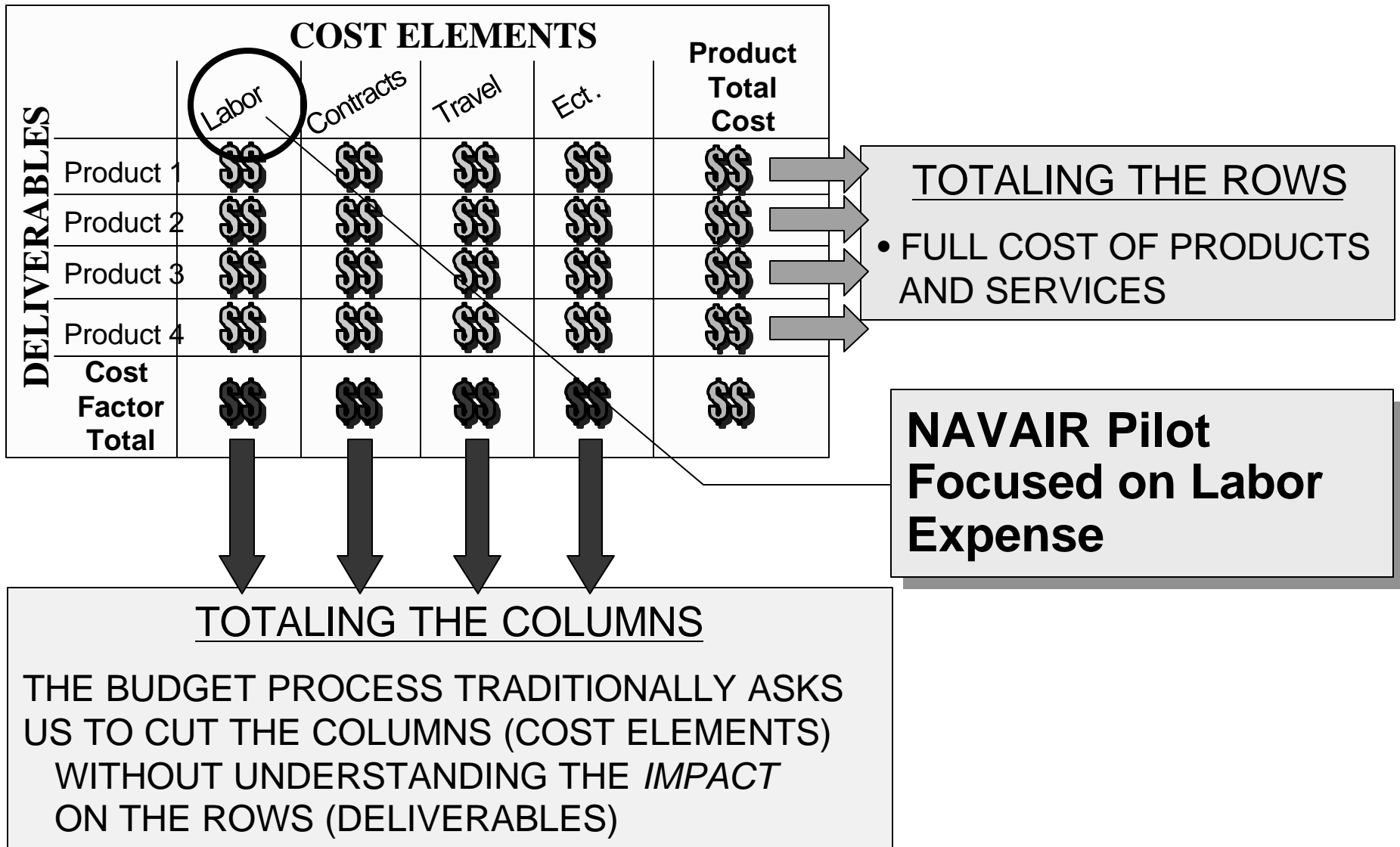
- Identifying Cost Based Efficiency Metrics
- Cost & Contribution of Internal Staff Organizations
- Internal Buyer/Seller Relationships

CONCEPTUAL APPROACH MANAGEMENT OF WORKFORCE TO SUPPORT CUSTOMERS AT AFFORDABLE COST



Approach

Product Based Budgeting Aligns Organizational Costs To Products



Budget By Deliverable Tool

Used To Collect Data from Internal NAVAIR Organizations

- Provided by N. Dean Meyer and Associates, Inc.

Microsoft Excel Workbooks Contained

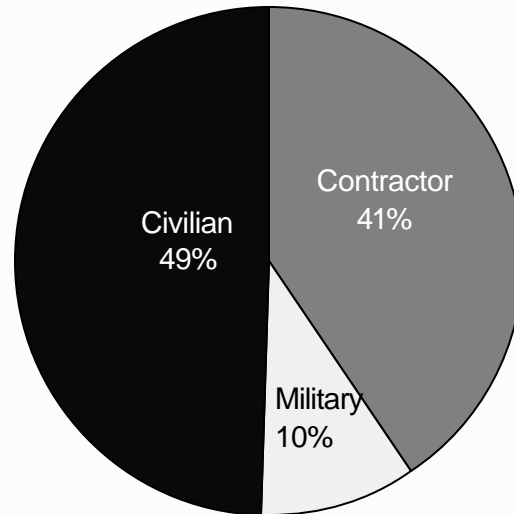
- Organizational Cost
 - Compensation of Staff (Gov. & Contractor)
 - Blended Hourly Rate
 - Total Billable Hours for Products
 - Non-Billable time
- Products
 - Customers
 - Units (Useful for Productivity Metrics)
 - Hours Required To Produce Products
- Buyer/Seller Relationships
 - Cost of Products Provided by Other Internal Organizations Are Added To Organization Blended Rate

Results

PBB Staffing & Product Summary

Pilot: 20% NAVAIR Organization

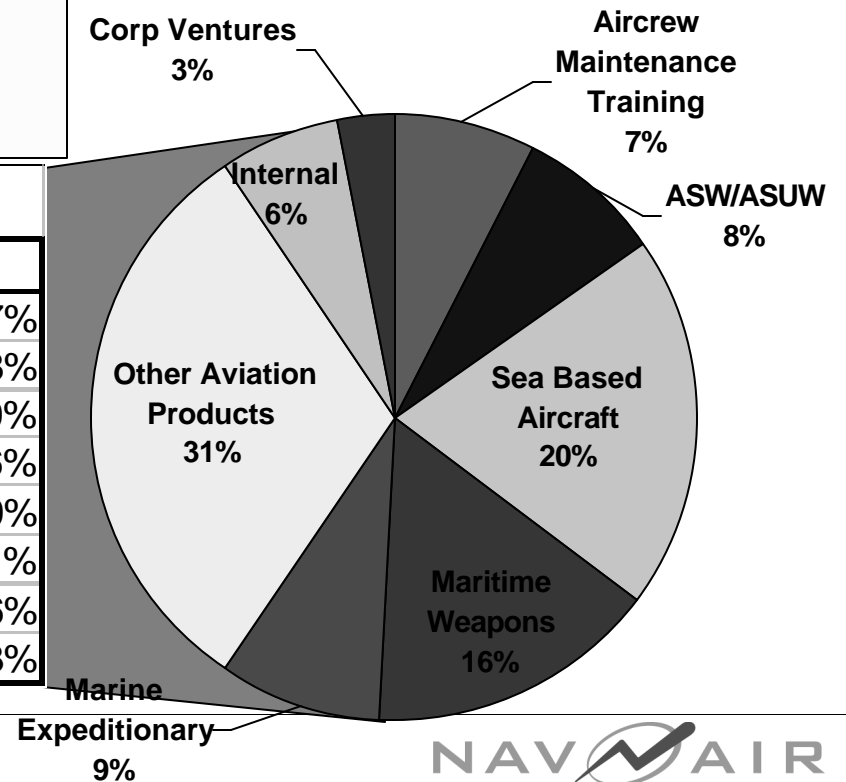
Total Staff Cost



Note: Product Proportions Displayed Do Not Reflect NAVAIR Overall Business

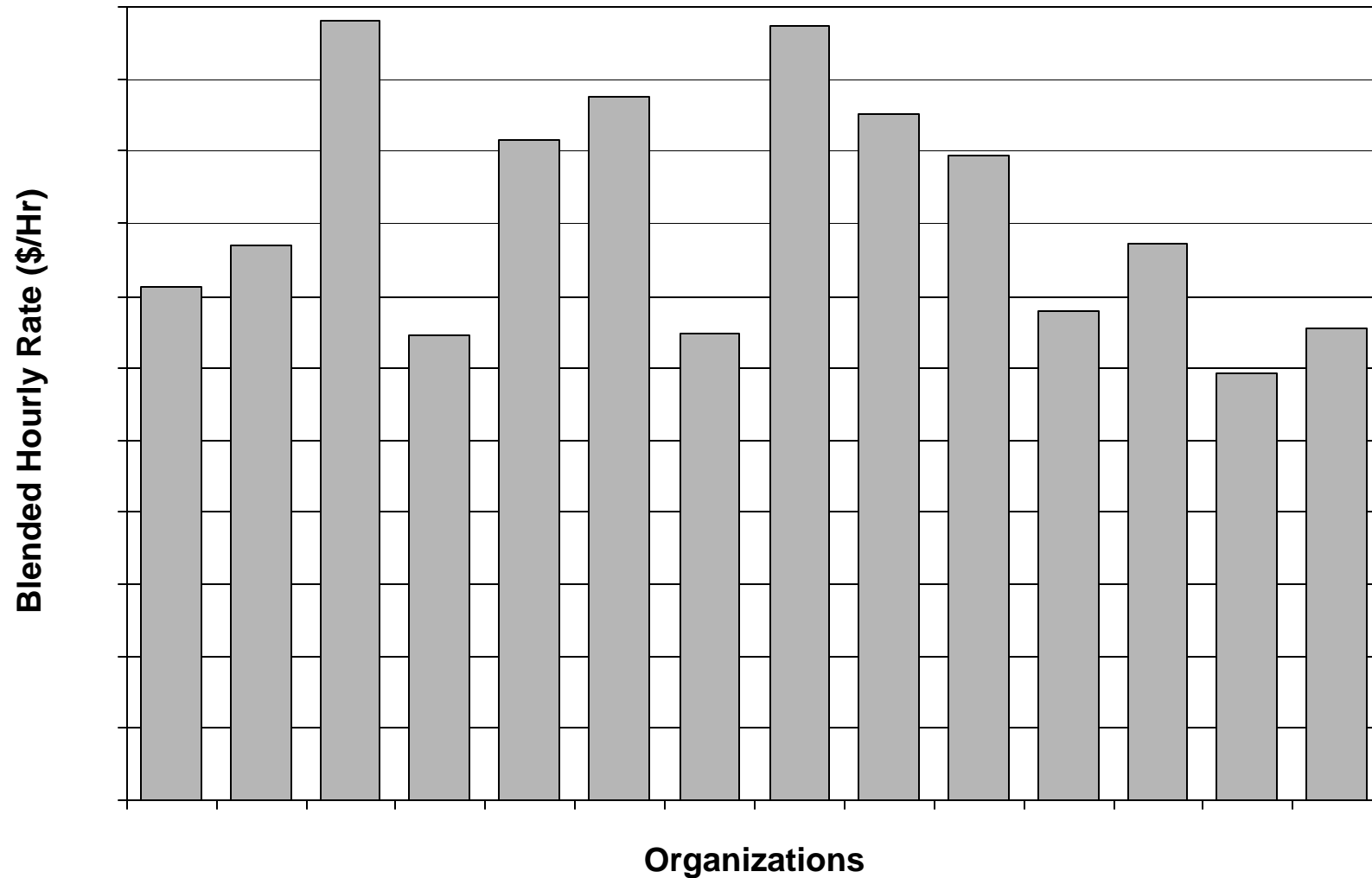
Total Product & Services Summary

Product	FTE
Aircrew/Maintenance Training Systems	7%
Air Anti-Submarine Warfare (ASW/ASUW)	8%
Sea Based Aircraft & Systems	20%
Maritime Weapons	16%
Marine Expeditionary Aviation Systems	9%
Other Aviation Products	31%
Internal Product & Services	6%
Corporate Ventures	3%



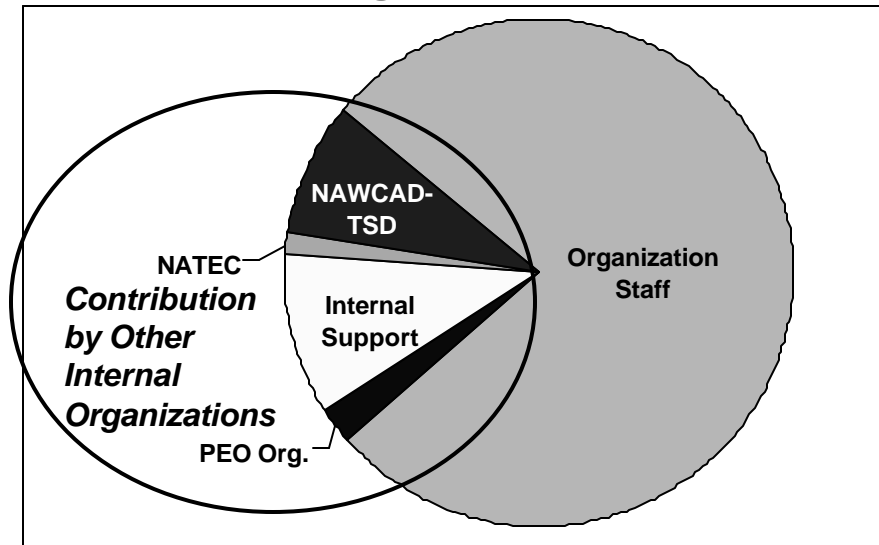
Example of Cost Based Metric

$$[\text{Blended Hourly Rate}] = \frac{[\text{Staff Cost}]}{[\text{Product Hours}]}$$

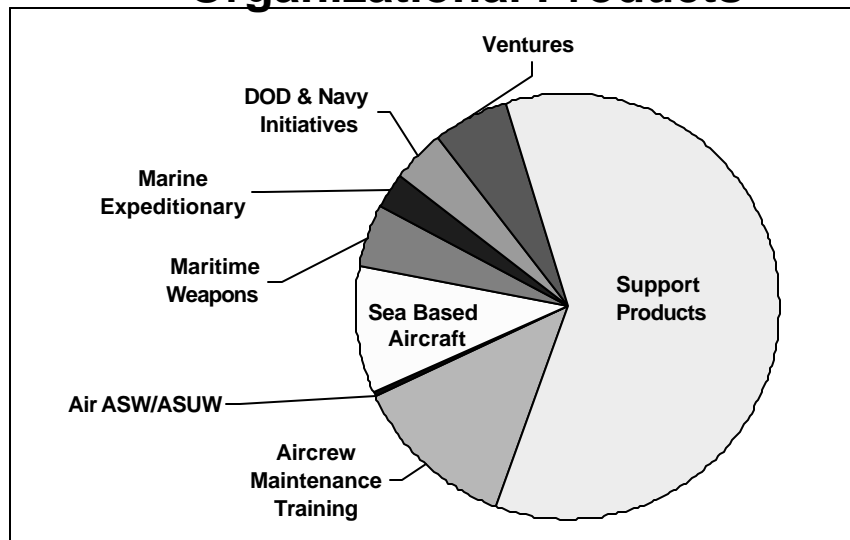


Example Analysis of Internal Organizations

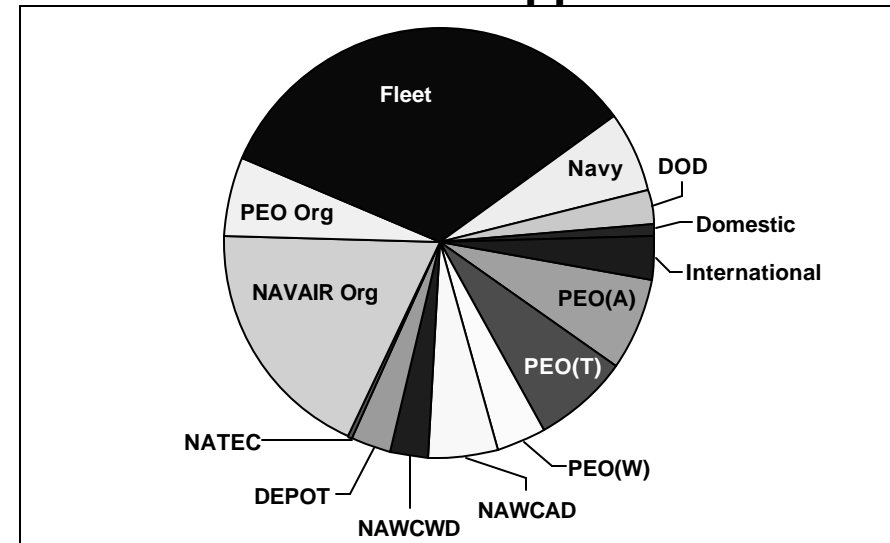
Organizational Cost



Organizational Products



Customers Supported



Summary

Summary

**Hard for Staff Organizations to Understand
Products & Billable Hours**

**Difficult for Senior Management to Use Because It
Does Not Align to Budgets**

**This Pilot Demonstrated the Feasibility of Cost
Based Budgeting**

What's Next

Product Based Budgeting

Product Based Budget

- Understand Total Cost Of products
- Manage Organizations To Optimize Value To Customers
- Drives Cultural Change For Results Orientation

COST ELEMENTS						
DELIVERABLES	Labor	Contracts	Travel	Eq	Product Total Cost	
	Product 1	\$\$	\$\$	\$\$	\$\$	\$\$
	Product 2	\$\$	\$\$	\$\$	\$\$	\$\$
	Product 3	\$\$	\$\$	\$\$	\$\$	\$\$
	Product 4	\$\$	\$\$	\$\$	\$\$	\$\$
	Cost Factor Total	\$\$	\$\$	\$\$	\$\$	\$\$
					TOTAL FY01 BUDGET	

Next Step(s)

- Include All Cost Elements
- Integrate With Budget Submissions
- Include NAVAIR Organizations
- Integrate With Appropriations

		OPERATING CYCLES			
		FY01	FY02	FY03	FY04
APPROPRIATIONS & REVENUE SOURCES	FY01 O&M,N				
	FY01 RDT&E,N				
	FY01 APN				
	FY01 MILITARY				
	FY01 FMS				
	FY01 REIMBURSABLE				

Acknowledgements

NAVAIR Strategic Sourcing Enterprise Team Appreciates the Contributions of:

- N. Dean Meyer and Associates, Inc. (NDMA)
 - Provided the Budget By Deliverable Tool and Helped the Command to Think Like a Business In the FY01 Pilot
- NAVAIR Executive Leadership: Ms. Pamela O'Dell
 - Provided the Opportunity to Start a Revolution
- NAVAIR Personnel Who Participated in the Pilot

NAV  AIR